

## MANAGEMENT LETTER

September 13, 2018

The Audit Committee, Board of Education,  
and Management  
Royalton-Hartland Central School District

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the remaining fund information of Royalton-Hartland Central School District (the District) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **OBSERVATIONS**

#### **1. General fund unassigned fund balance**

As you are aware and as suggested by the New York State Comptroller's office the unassigned fund balance in the general fund was \$2,753,000 at June 30, 2018. This represents approximately 11% of the 2018-2019 expenditure budget, while Real Property Tax Law mandates that unappropriated fund balance shall not exceed 4% of the next year's expenditure budget. We recommend the Board review the nature of its reserve funds in relation to future plans for expenditures and determine how best to comply with State requirements. It is our understanding that the voters have approved another capital reserve.

## INFORMATIONAL POINTS – ACCOUNTING STANDARDS UPDATE

The following points are for informational purposes only and we do not consider it necessary for management to include a response within the District's corrective action plan.

- GASB issued statement No. 87, *Leases*, is effective for the year ending June 30, 2021. It requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease as a liability and an intangible right-to-use lease asset.
- GASB Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, is effective for the District's year ending June 30, 2019. It requires disclosure in the footnotes for additional information related to debt, including unused lines of credit, assets pledged as collateral, and the terms specified in debt agreements related to significant events of default, termination events with finance-related consequences, and significant acceleration clauses.

## PRIOR YEAR RECOMMENDATIONS

Included in our current year procedures is an update of the status of recommendations made in previous audits. Recommendations not mentioned elsewhere are as follows:

- It was noted that some inactive Extraclassroom clubs were closed during the year. Club activity should continue to be reviewed by management to determine whether to close clubs that are inactive.
- Cash receipt forms were missing club advisors' signatures in 2017. All cash receipt forms selected for testing as part of the current year audit were signed by club advisors.
- We are pleased to note that clubs are periodically reconciling their records with those of the central treasurer.

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We have discussed these comments with District personnel and would be pleased to discuss them in further detail, perform any additional studies, or assist you in implementing the recommendations.

This communication is intended solely for the information and use of the District's management, Audit Committee, Board of Education, and others within the District; the NYS Education Department Office of Audit Services; and the Office of the NYS Comptroller, Division of Local Government and School Accountability. It is not intended to be, and should not be, used by anyone other than these specified parties.

*Junsden # McCormick, LLP*